

FA Module 11: Operating leases and finance leases (overview)

(The attached PDF file has better formatting.)

The preceding modules are basic accounting principles. In practice, insurers often have

- leased property instead of owned property
- complex corporate structures, often with consolidation of foreign subsidiaries
- pension liabilities (and associated pension assets)
- deferred tax assets and liabilities

The final exam problems for the rest of the modules in this course are based on the practice problems on the discussion forum. Know how to reproduce the exercises with other input data.

- Reading: chapter 9 §9 leasing
- Reading: chapter 10 §3 leases, *excluding* Example 12 (Royal Dutch Shell)

Know how finance leases (capital leases) differ from operating leases. You will not be tested on the detailed requirements of IFRS or GAAP.

Know the accounting and reporting (by the lessee) for both types of lease, especially

- Lease expense vs depreciation expense and interest expense
- Accrued interest vs reduction in lease liability
- Effects on financial ratios: debt-to-equity ratio, financial leverage, return on equity

Know the difference in accounting by the lessor for direct financing leases vs sales-type leases.